The Management's Discussion and Analysis of Financial Condition and Results of Operations for Charlotte's Web Holdings, Inc. is also included in the Form 10-Q for the quarter ended September 30, 2023 filed on SEDAR+ on November 9, 2023 in its entirety.

This document (this "MD&A") contains information under the heading "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" which has been excerpted from Charlotte's Web Holdings, Inc.'s (the "Company" or "our") Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 (the "Third Quarter Report") filed concurrently with this MD&A on the date hereof on our profile on SEDAR+ at www.sedarplus.ca and on EDGAR at www.sec.gov . This MD&A should be read in conjunction with our Third Quarter Report including Item 1 containing the Company's unaudited condensed consolidated financial statements and the related notes thereto as well as Item 1 "Business" and Item 1A "Risk Factors". This MD&A incorporates by reference herein the section entitled "Disclosure Regarding Forward-Looking Statements" and Item 1A "Risk Factors" from our Third Quarter Report. Defined terms used herein but otherwise not defined have the meaning ascribed to them in the Annual Report on Form 10-K for the year ended December 31, 2022 and in Part II, Item 1A—Risk Factors" of this Form 10-Q.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q ("Form 10-Q") contains statements that are, or may be considered to be, "forward-looking statements" under Canadian securities laws and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are intended to be subject to the "safe harbor" created by those sections and other applicable laws. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions. All statements other than statements of historical fact included in this Form 10-Q regarding the prospects of Charlotte's Web Holdings, Inc., ("Charlotte's Web", the "Company" or "we"), the industry or its prospects, plans, financial position, or business strategy may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as "plans," "expects" or "does not expect," "is expected," "look forward to," "budget," "scheduled," "estimates," "forecasts," "will continue," "intends," "the intent of," "have the potential," "anticipates," "does not anticipate," "believes," "should," "should not," or variations of such words and phrases that indicate that certain actions, events or results "may," "could," "would," "might," or "will," "be taken," "occur," or "be achieved," or the negative of these terms or variations of them or similar terms. Furthermore, forward-looking statements may be included in various filings that the Company makes with the SEC or press releases or oral statements made by or with the approval of one of the Company's authorized executive officers. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. (All capitalized and undefined terms used in this section shall have the same meanings hereafter defined in this Quarterly Report on Form 10-Q.)

The following discussion and analysis of financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by, the unaudited condensed consolidated financial statements and the accompanying notes in this Form 10-Q and the sections entitled "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2022. Except for historical information, the discussion in this section contains forward-looking statements that involve risks and uncertainties, as discussed in the "Cautionary Note Regarding Forward Looking Statements." Future results could differ materially from those discussed below for many reasons, including the risks described in Item 1A—"Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 and in Part II, Item 1A—Risk Factors" of this Form 10-Q.

Management's Discussion & Analysis of Charlotte's Web Holdings, Inc.

For purposes of this discussion, "Charlotte's Web," "CW," "we," or the "Company" refers to Charlotte's Web Holdings, Inc. and its subsidiaries: Charlotte's Web, Inc. and Abacus Products, Inc., and its wholly owned subsidiaries; Abacus Health Products, Inc., Abacus Wellness, Inc. and CBD Pharmaceuticals Ltd. The results herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Amounts are presented in thousands of United States dollars, unless otherwise indicated.

BUSINESS OVERVIEW

Charlotte's Web Holdings, Inc., is a Certified B Corp headquartered in Louisville, Colorado, which does the majority of its business in the United States. The Company is a market leader in innovative hemp extract wellness products under a family of brands which includes Charlotte's Web™, ReCreate™, CBD Medic™, CBD Clinic™, and Harmony Hemp™. Charlotte's Web branded premium quality products start with proprietary hemp genetics that are 100% North American farm grown and manufactured into hemp extracts containing naturally occurring phytocannabinoids including CBD, cannabichromene ("CBC"), cannabigerol ("CBG"), terpenes, flavonoids and other beneficial hemp compounds. The Company moved into its new cGMP facility in Louisville, Colorado during the second quarter of 2020 at which the Company conducts its production of tinctures, distribution, and quality control activities, and has expanded its research and development ("R&D"). Charlotte's Web product categories include full spectrum hemp extract oil tinctures (liquid products), gummies, capsules, CBD topical creams and lotions, as well as products for pets. As of October 2022, the Company produces NSF Certified for Sports® broad spectrum tincture products. Charlotte's Web products are distributed to retailers and health care practitioners, and online through the Company's website at www.CharlottesWeb.com. The information provided on such websites is not part of this MD&A.

The business of the Company consists of the farming, manufacturing, sales, and marketing of hemp-derived CBD wellness products. As of September 30, 2023, the Company operated in a single operating and reportable segment, hemp-derived CBD wellness products, as its executive officers reviewed overall operating results in order to assess financial performance and to make resource allocation decisions, rather than to assess a lower-level unit of operations in isolation.

The Company's primary products are made from proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, terpenes, flavonoids and other hemp compounds. The Company believes the presence of these various compounds work synergistically to heighten the effects of the products, making them superior to single-compound isolates.

Hemp extracts are produced from Cannabis and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a THC concentration of not more than 0.3% on a dry weight basis. The Company is engaged in research involving a broad variety of compounds derived from Hemp. Where research provides evidence that a greater than 0.3% THC level may have a potential therapeutic use, the Company may consider pursuing development of that use in jurisdictions where it is legal to do so in accordance with applicable regulations and if consistent with the Company's founding principles. The Company does not currently have any plans to expand into high THC products in the near future.

The Company grows its proprietary hemp domestically in the United States on farms leased in northeastern Colorado and sources hemp through contract farming operations in Arizona, Kentucky, Oregon, and Canada. The Hemp grown in Canada is utilized exclusively in the Canadian markets or for research purposes and not in products sold in the United States.

Recent Developments

On April 6, 2023, the Company jointly formed an entity, DeFloria LLC ("DeFloria"), with AJNA BioSciences PBC ("AJNA"), and a subsidiary of British American Tobacco PLC (LSE: BATS and NYSE: BTI) ("BAT"). BAT holds an equity interest in DeFloria in the form of 200,000 preferred units following its $10 million investment and has the

right to participate in future equity issuances to maintain its pro rata equity position. The Company and AJNA each hold 400,000 of DeFloria's voting common units.

The Company's contribution to DeFloria was a license permitting the use of certain proprietary hemp intellectual property, including clinical and consumer data. Additionally, the Company has a Supply Agreement with DeFloria, under which the Company supplies the oils at cost used to produce and develop the new drug. AJNA's contribution to the entity is laboratory and regulatory services, clinical expertise and the provision of clinical services. DeFloria is utilizing the initial $10 million cash investment for the clinical development of a novel hemp botanical Investigational New Drug application and has commenced Phase I clinical development.

On July 11, 2023, the Company expanded its product footprint with the launch of NSF Certified for Sports® broad spectrum gummy products under the ReCreate™ brand, the Company's lifestyle and botanical wellness brand focused on the combination of organic broad-spectrum CBD and functional botanicals. In June of 2023, the Company announced its partnership as the Official CBD of the Premier Lacrosse League ("PLL").

In early 2023, Charlotte's Web initiated a plan to move the production of topicals and gummies in house, and in the third quarter construction progressed with a modest capital expenditure. On-site manufacturing better utilizes the Company's existing Louisville production facility, improving gross margins and aligns with the Company's ongoing efforts to improve overall operating efficiencies.

As of September 30, 2023, several states, including, but not limited to, Alaska, Florida, Maryland, Minnesota, New York, Utah and Virginia, have adopted new regulations that will impact the Company's ability to sell certain products as currently formulated or packaged in these states. Many of these states have also implemented new THC/CBD limits, age verification, labeling and packaging requirements. The Company continues to assess the business and financial impacts of the new regulations, including steps that can be taken to address the new product formulation and labeling requirements, as well as costs and potential revenue impacts and anticipated timing for such impacts to the Company in these states.

The Company continues to invest in R&D efforts to identify new product opportunities. The Company is working to capitalize on the rapidly emerging botanical wellness products industry by driving customer acquisition and retention, as well as accelerating retail expansion. In addition, the Company may consider expanding its product line beyond Hemp-based products should the science and the Company's founding principles support such expansion.

Selected Financial Information

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Total revenues	$ 14,294	$ 17,037	$ 47,310	$ 55,271
Cost of goods sold	6,365	8,092	20,546	25,291
Gross profit	7,929	8,945	26,764	29,980
Selling, general, and administrative expenses	19,889	11,032	57,029	48,646
Asset Impairment	—	1,822	—	1,822
Operating loss	(11,960)	(3,909)	(30,265)	(20,488)
Gain on initial investment in unconsolidated entity	—	—	10,700	—
Change in fair value of financial instruments	(4,024)	(4,000)	5,588	(3,900)
Other income (expense), net	841	321	(1,234)	304
Net loss	$ (15,143)	$ (7,588)	$ (15,211)	$ (24,084)
Total assets			$ 163,867	$ 140,518
Total liabilities			$ 100,129	$ 31,656

For The Three Months Ended September 30, 2023 and 2022

Revenue

The majority of the Company's revenue is derived from sales of branded products to consumers via the Company's DTC e-commerce website, and distributors, retail and wholesale B2B customers. DTC sales contributed 66% of the Company's total net revenue in the three months ended September 30, 2023 with B2B sales contributing 34%.

	Three Months Ended September 30,		%
	2023	2022	(Decrease)
Direct-to-consumer ("DTC") revenue	$ 9,428	$ 11,759	(19.8)%
Business-to-business ("B2B") revenue	4,866	5,278	(7.8)%
Total revenue	$ 14,294	$ 17,037	(16.1)%

Total revenue for the three months ended September 30, 2023 was $14,294, a decrease of 16.1% compared to the three months ended September 30, 2022.

DTC net revenue through the Company's webstore was $9,428, a decrease of 19.8% year-over-year compared to $11,759 for the three months ended September 30, 2022. The decrease for the quarter was primarily due to lower organic traffic and consumer acquisition. E-commerce is the CBD industry's largest sales channel representing more than one third of total annual industry sales. The Company is investing in this important channel to increase digital marketing effectiveness and search engine optimization to drive higher traffic to its webstore. Under new leadership,

a new platform is being implemented to improve the consumer experience. The platform is also expected to provide better integration with marketing initiatives, including promotions with MLB.

B2B net revenue of $4,866 decreased 7.8% year-over-year compared to $5,278 for the three months ended September 30, 2022, primarily due to some of the Company's mass retail customers exiting the CBD category, and/or closing retail locations. Despite some retailers reducing the size of the CBD category over the past two years, Charlotte's Web has increased the number retail doors and placements in 2023. Modest category weakness within the Natural retail channel during the quarter was partially offset by increased sales traction in the medical channel.

Cost of Goods Sold

Cost of goods sold includes the cost of inventory sold, changes in inventory provisions, and other production costs expensed. Other production costs include direct and indirect production costs including direct labor, processing, testing, packaging, quality assurance, security, shipping, depreciation of production equipment, indirect labor, including production management, and other related expenses. The primary factors that can impact cost of goods sold on a period-to-period basis include the volume of products sold, mix of product sold, third-party quality costs, transportation, overhead allocations and changes in inventory provisions.

The components of cost of goods sold are as follows:

	Three Months Ended September 30,		% (Decrease)/
	2023	2022	Increase
Inventory expensed to cost of goods sold	4,454	5,407	(17.6)%
Inventory provision, net	410	—	100.0 %
Other production costs	608	1,842	(67.0)%
Depreciation and amortization	893	843	5.9 %
Cost of goods sold	$ 6,365	$ 8,092	(21.3)%

Cost of goods sold decreased 21.3% for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The improvement for the quarter was primarily due to a decrease in inventory expensed to cost of goods sold and reduced operating costs as a result of lower sales volume.

Depreciation and amortization expense for the three months ended September 30, 2023 and September 30, 2022 was $3,741 and $1,822, respectively, of which $893 and $843, respectively, was expensed to cost of goods sold. The remaining depreciation and amortization expenses for the quarter of $2,848 and $979, respectively, was expensed to Selling, general, and administrative expenses.

Gross Profit

The primary factors that can impact gross profit margins include the volume of products sold, the mix of revenue between DTC e-commerce and B2B, the mix of products sold, the promotional and sales discount rate, third-party quality costs, transportation costs, and changes in inventory provisions.

Gross profit for the three months ended September 30, 2023 and September 30, 2022 is as follows:

	Three Months Ended September 30,		% (Decrease)/
	2023	2022	Increase
Gross profit	$ 7,929	$ 8,945	(11.4)%
Gross margin	55.5%	52.5%	5.7 %

Gross profit decreased 11.4% for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The decrease is directly related to the decrease in revenue of 16.1%, partially offset by improvements in cost of goods sold. On a rate basis, gross margin increased 5.7% despite lower revenue due to improved operating cost management.

Selling, General, and Administrative Expenses

Total Selling, general, and administrative expenses are as follows:

	Three Months Ended September 30,		% (Decrease)/
	2023	2022	Increase
Selling, general, and administrative expenses	$ 19,889	$ 11,032	80.3 %

Total Selling, general, and administrative expenses for the three months ended September 30, 2023 and September 30, 2022 were $19,889 and $11,032, respectively. The increase for the quarter is primarily due to the amortization of MLB license and media rights assets of $2,949. Additionally, for the three months ended September 30, 2022, an Employee Retention Credit ("ERC") tax benefit of $4,106 was recognized reducing Selling, general, and administrative expenses in the prior period.

Depreciation and amortization expensed to Selling, general, and administrative expenses for the three months ended September 30, 2023 and September 30, 2022 were $2,848 and $979, respectively.

Total research and development costs expensed to Selling, general, and administrative expenses for the three months ended September 30, 2023 and September 30, 2022 were $733 and $647, respectively. Research and development expenses primarily include personnel costs related to our R&D science division as well as R&D related projects advancing Hemp cannabinoid science through research programs that provide a better understanding of the possible therapeutic uses of cannabinoids.

Asset Impairment

For the three months ended September 30, 2022, the Company recorded an impairment charge of $1,822 in the consolidated statements of operations. The Company made the decision to cease utilizing the Denver office space. Based on an analysis of the estimated undiscounted cash flows relative to a potential sublease arrangement, the Company evaluated the recoverability of the assets associated with the subleased space, including, the right-of-use asset and concluded the asset was impaired. There were no such impairments for the three months ended September 30, 2023.

Total Change in Fair Value of Financial Instruments

Total change in fair value of financial instruments is as follows:

	Three Months Ended September 30,		% (Decrease)/ Increase
	2023	2022	
Change in fair value of financial instruments	$ (4,024)	$ (4,000)	0.6 %

Total change in fair value of financial instruments for the three months ended September 30, 2023 and September 30, 2022 was loss of $4,024 and $4,000, respectively. For the three months ended September 30, 2023, the loss in fair value of financial instruments was primarily due to the revaluation of the fair value of the Company's debt conversion option and debt interest rate conversion feature resulting in a net loss of $4,699, partially offset by a gain in the SBH purchase option and the investment in DeFloria. The fair value of the Company's embedded derivatives and options are revalued at each reporting date with changes impacted by variability in the Company's share price and implied debt yields. For the three months ended September 30, 2022, there was a loss in the fair value of the Company's SBH Purchase Option of $4,000.

For the Nine Months Ended September 30, 2023 and 2022

Revenue

The majority of the Company’s revenue is derived from sales of branded products to consumers via the Company’s DTC e-commerce website, and distributors, retail and wholesale B2B customers.

	Nine Months Ended September 30,		% (Decrease)/ Increase
	2023	2022	
Direct-to-consumer ("DTC") revenue	$ 31,430	$ 38,174	(17.7)%
Business-to-business ("B2B") revenue	15,880	17,097	(7.1)%
Total revenue	$ 47,310	$ 55,271	(14.4)%

Total revenue for the nine months ended September 30, 2023 was $47,310, a decrease of 14.4% compared to the nine months ended September 30, 2022.

DTC revenue for the current year decreased 17.7%year-over-year for the period as a result of reduced traffic and sales through the Company’s webstore. The Company is investing in its DTC platform to drive higher traffic. Evolving consumer format preference was an additional contributing factor to lower revenue, as product sales mix has continued to shift away from higher priced oil tinctures.

B2B revenue decreased 7.1% compared to the nine months ended September 30, 2022. The decrease for the current year was primarily the result of some of the Company’s mass retail customers exiting the CBD category in year-over-year period, or closing retail locations. Despite some retailers reducing the size of the CBD category over the past two years, Charlotte’s Web has also added new mass retail doors in 2023. Additionally, the Company completed a topicals portfolio rationalization for 2023 resulting in reduced topical product revenue at retail, partially offset by increased sales of pet chews.

Cost of Goods Sold

Cost of goods sold includes the cost of inventory sold, changes in inventory provisions, and other production costs expensed. Other production costs include direct and indirect production costs including direct labor, processing, testing, packaging, quality assurance, security, shipping, depreciation of production equipment, indirect labor, including production management, and other related expenses. The primary factors that can impact cost of goods sold on a period-to-period basis include the volume of products sold, mix of product sold, third-party quality costs, transportation, overhead allocations and changes in inventory provisions.

The components of cost of goods sold are as follows:

	Nine Months Ended September 30,		% (Decrease)/
	2023	2022	Increase
Inventory expensed to cost of goods sold	14,642	17,373	(15.7)%
Inventory provision, net	730	1,857	(60.7)%
Other production costs	2,485	3,518	(29.4)%
Depreciation and amortization	2,689	2,543	5.7 %
Cost of goods sold	$ 20,546	$ 25,291	(18.8)%

Cost of goods sold decreased 18.8% for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Inventory and other production costs that were expensed to cost of goods declined for the current year proportionately with revenue, with a further reduction on the improvement of inventory provisions.

Depreciation and amortization expense for the nine months ended September 30, 2023 and September 30, 2022 was $11,509 and $5,762, respectively, of which $2,689 and $2,543, respectively, was expensed to cost of goods sold. The remaining depreciation and amortization expenses for the nine months ended September 30, 2023 and September 30, 2022 of $8,820 and $3,219, respectively, was expensed to Selling, general, and administrative expenses.

Gross Profit

The primary factors that can impact gross profit margins include the volume of products sold, the mix of revenue between DTC e-commerce and B2B, the mix of products sold, the promotional and sales discount rate, third-party quality costs, transportation costs, and changes in inventory provisions.

Gross profit for the nine months ended September 30, 2023 and September 30, 2022 is as follows:

	Nine Months Ended September 30,		% (Decrease)/
	2023	2022	Increase
Gross profit	$ 26,764	$ 29,980	(10.7)%
Gross margin	56.6%	54.2%	4.4 %

Gross profit decreased 10.7% for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, due to the lower net revenue for the first nine months of 2023. However, on a rate basis, gross margin improved 4.4% year-over-year as a result of cost management and improved inventory provisions.

Selling, General, and Administrative Expenses

Total Selling, general, and administrative expenses are as follows:

	Nine Months Ended September 30,		% (Decrease)/
	2023	2022	Increase
Selling, general, and administrative expenses	$ 57,029	$ 48,646	17.2 %

Total Selling, general, and administrative expenses for the nine months ended September 30, 2023 and September 30, 2022 were $57,029 and $48,646, respectively. The increase for the current year is primarily due to the amortization related to the MLB license and media rights assets of $6,846. Additionally, for the nine months ended September 30, 2022, an Employee Retention Credit ("ERC") tax benefit of $4,106 was recognized reducing SG&A expense in the prior period.

Depreciation and amortization expensed to Selling, general, and administrative expenses for the nine months ended September 30, 2023 and September 30, 2022 were $8,820 and $3,219, respectively.

Total research and development costs expensed to Selling, general, and administrative expense for the nine months ended September 30, 2023 and September 30, 2022 were $2,194 and $2,835, respectively. Research and development expenses primarily include personnel costs related to the Company's R&D science division as well as R&D related projects advancing Hemp cannabinoid science through research programs that provide a better understanding of the possible therapeutic uses of cannabinoids.

Gain on Initial Investment in Unconsolidated Entity

The initial gain on investment in unconsolidated entity is as follows:

	Nine Months Ended September 30,		% (Decrease)/
	2023	2022	Increase
Gain on initial investment in unconsolidated entity	$ 10,700	$ —	100 %

The gain on initial investment in unconsolidated entity for the nine months ended September 30, 2023 and September 30, 2022 was $10,700 and $0, respectively. For the nine months ended September 30, 2023, the gain on initial investment in unconsolidated entity was due to the Company jointly forming an entity, DeFloria, with AJNA, and BAT. DeFloria was established to pursue FDA-approval for a novel botanical drug to target a neurological condition. The botanical drug will be developed from certain proprietary hemp genetics of the Company. The Company has the ability and elected the fair value option for the investment in DeFloria. As such the initial investment is measured at fair value and remeasured at each reporting date, with changes recognized in changes in fair value of financial instruments.

Total Change in Fair Value of Financial Instruments

Total change in fair value of financial instruments is as follows:

	Nine Months Ended September 30,		% (Decrease)/ Increase
	2023	2022	
Change in fair value of financial instruments	$ 5,588	$ (3,900)	(243)%

Total change in fair value of financial instruments for the nine months ended September 30, 2023 and September 30, 2022 was a gain of $5,588 and a loss of $3,900, respectively. For the nine months ended September 30, 2023, the increase in the change in fair value of financial instruments was primarily due to the revaluation of the fair value of the Company's debt conversion option and debt interest rate conversion feature resulting in a net gain of $5,156. The fair value of the Company's embedded derivatives and options are revalued at each reporting date with changes impacted by variability in the Company's share price and implied debt yields. For the nine months ended September 30, 2022, the change in fair value of financial instruments was primarily driven by a loss of $3,900 in the fair value of the Company's SBH Purchase Option.

Liquidity and Capital Resources

As of September 30, 2023 and December 31, 2022, the Company had total current liabilities of $24,781 and $21,427, respectively, and cash and cash equivalents of $51,016 and $66,963, respectively, to meet its current obligations.

The Company expects its Selling, general and administrative expenses in 2023 to be slightly higher than in 2022 reflecting the incremental costs of the MLB Promotional Rights Agreement and related marketing activations. The investments in paid license and media rights as well as the launch of the new NSF Certified for Sport® brand products are intended to be offset by increases in online traffic, channel sales and net revenue over the long term.

In early 2023, Charlotte’s Web initiated a plan to move the production of topicals and gummies in house, and in the third quarter construction progressed with a modest capital expenditure. On-site manufacturing better utilizes the Company’s existing Louisville production facility, improving gross margins and aligns with the Company’s ongoing efforts to improve overall operating efficiencies.

The Company’s ability to fund its operations for the next twelve months and thereafter will depend on its future operating performance, particularly revenue growth, which can be affected by general economic conditions, industry regulatory changes, and other factors beyond the Company’s control.

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: (i) operating activities, including the cash impacts from the statements of operations, the level of accounts receivables, accounts payable, accrued liabilities and unearned revenue and deposits; (ii) investing activities, including the purchase of property and equipment; and (iii) financing activities, including the issuance of capital shares.

The Company expects to meet its long-term liquidity requirements through various sources of capital, including cash on hand and cash provided by operations over time. The Company regularly considers fundraising opportunities and may decide, from time to time, to raise capital through borrowings or issuances of additional equity and/or debt securities. The Company's ability to incur additional debt is dependent upon a number of factors, including the state

of the credit markets, the Company's degree of leverage, the value of its unencumbered assets and borrowing restrictions imposed by lenders, including restrictions on the industry. The Company's ability to raise funds through the issuance of additional equity and/or debt securities is also dependent on a number of factors including the current state of the capital markets, investor sentiment and intended use of proceeds. The Company's ability to raise funds through the issuance of equity securities depends on, among other things, general market conditions for companies in the Hemp industry and market perceptions about Charlotte's Web. There can be no assurance the Company will have the ability to raise additional funds and, if raised privately or publicly, that additional funds will be available to the Company when needed or on terms which are acceptable.

Cash Flows

Cash from Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2023 and September 30, 2022 were as follows:

	Nine Months Ended September 30,	
	2023	**2022**
Net cash used in operating activities	$ (12,849)	$ (2,599)

For the nine months ended September 30, 2023, the increase in cash used in operations is primarily due to cash outflows of $6,000 associated with the MLB Promotional Rights Agreement which was entered into in October 2022. Additionally, the increase is due to escalating rent payments compared to the prior period. For the nine months ended September 30, 2022, the Company collected $10,841 from income tax refunds due.

Cash from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2023 and September 30, 2022 were as follows:

	Nine Months Ended September 30,	
	2023	**2022**
Net cash used in investing activities	$ (2,896)	$ (57)

For the nine months ended September 30, 2023, the increase in cash used in investing activities was driven primarily by machinery purchases as part of the Company's plan to in-source topical and gummy production.

Cash from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2023 and September 30, 2022 were as follows:

	Nine Months Ended September 30,	
	2023	**2022**
Net cash used in financing activities	$ (202)	$ (325)

For the nine months ended September 30, 2023, the change was primarily due to the vesting of restricted stock units.

Off-Balance Sheet Arrangements

As of September 30, 2023 and December 31, 2022, we do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our results of operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

Related party transactions

Effective November 2020, the Company issued a secured promissory note, where $1,000 was loaned to one of the Company's founders. The note receivable was secured by equity instruments held by certain founders of the Company, and bore interest at 3.25% per annum, and required the unpaid principal and unpaid interest balances to be paid on or before the maturity date of November 13, 2021. On March 22, 2022, the founders requested an extension of the maturity date, as allowed under the terms of the promissory note, resulting in an extension of the maturity date to November 13, 2023. As of September 30, 2022, the note receivable of $1,037 consisted of principal and interest. As of December 31, 2022, the Company established a reserve against the note receivable due to decline in collateral and risk associated with collectability and therefore, expensed the outstanding balance of $1,037.

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA as discussed above (Note 3). The SBH Purchase Option was purchased for total consideration of $8,000. Certain founders of the Company, who are or were employees at the time, are the majority shareholders of Stanley Brothers USA.

Effective January 5, 2023, the Company entered into a Brand License and Option Agreement with JMS Brands LLC (the “Brand License and Option Agreement”), an entity owned by one of the Company’s founders. Pursuant to the Brand License and Option Agreement, the Company licenses certain intellectual property from JMS Brands LLC, for an annual license fee of $500. Pursuant to the terms of the agreement, the Company has the option to purchase the intellectual property rights for $2,000.

On April 6, 2023, the Company jointly formed an entity, DeFloria, with AJNA and BAT. AJNA is a botanical drug development company. AJNA is partially owned and was co-founded by a co-founder of Charlotte's Web. BAT holds an equity interest in the entity in the form of 200,000 preferred units following its $10 million investment and has the right to participate in future equity issuances to maintain its pro rata equity position. The Company and AJNA each hold 400,000 of the entity’s voting common units. Effective May 1, 2023 the Company entered into an 8% interest bearing note receivable with DeFloria for the bill of sale of machine equipment in the amount of $170. The principal and interest of the note receivable will be paid in 36 monthly installments. As of September 30, 2023, the remaining note receivable of $142 is presented in other assets in the condensed consolidated balance sheets.

Pursuant to an amendment to the Name and Likeness and License Agreement between the Company and Leeland & Sig LLC d/b/a Stanley Brothers Brand Company, the agreement was extended to December 31, 2023. The agreement includes the payment of a nominal per diem fee for specifically requested activities as brand ambassadors for the Company. In addition, on April 16, 2021, the Company executed a separate consulting agreement which extended the services agreements of the Stanley Brothers for a period of one year, expiring July 31, 2022. Upon execution of the consulting agreement, the Company paid $2,081 to Leeland & Sig LLC d/b/a Stanley Brothers Brand Company, on behalf of the Stanley Brothers, as consideration for the consulting services to be provided to the Company over the term of the agreement and certain restrictive covenants. For the three and nine months ended September 30, 2022, the Company recognized $150 and $1,025, respectively in sales and marketing expenses in the condensed consolidated statements of operations and net loss related to this agreement.

Recently Adopted Accounting Principles

Refer to Note 2 of the audited consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the SEC on March 23, 2023 for more information on the recently adopted accounting principles.

Critical Accounting Estimates

Listed below are the accounting policies we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. Please also refer to Note 2 of our notes to condensed consolidated financial statements for a discussion on recently adopted and issued accounting pronouncements.

Fair Value Option

The Company has elected the fair value option in accordance with ASC 825-10 guidance to record its SBH Purchase Option and the Investment in unconsolidated entity. Under ASC 825-10, a business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. These assets are remeasured at fair value at each reporting date, with changes to fair value recognized in the statements of operations for the period. The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. Changes in assumptions that reasonably could have been different at the reporting date may result in a higher or lower determination of fair value.

Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. Cost includes all expenses for direct raw materials inputs, as well as costs directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Cost is determined by use of the weighted average method. To determine if a provision for inventories is required, the Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions, including forecasted demand compared to quantities on hand, as well as other factors such as potential excess or aged inventories based on product shelf life, and other factors that affect inventory obsolescence. The Company’s inventories of harvested hemp are recorded at cost to grow and harvest. Raw materials costs as well as production costs are included in the carrying value of the Company’s finished goods inventory. The Company's inventory production process for cannabinoid products includes the cultivation of botanical raw material. Because of the duration of the cultivation process, a portion of the inventory will not be sold within one year. Consistent with the practice in other industries that cultivate botanical raw materials, all inventory is classified as a current asset.

Impairment of Long-Lived Assets

The Company reviews intangible assets with indefinite useful lives for impairment at least annually and reviews all intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Long-lived assets, such as property and equipment and intangible assets subject to depreciation and amortization, as well as indefinite lived intangibles and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than the Company had originally estimated. Recoverability of these assets is measured by comparison of the carrying amount of each asset or asset group to the future undiscounted cash flows the asset or

asset group is expected to generate over their remaining lives. If the asset or asset group is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset or asset group. If the useful life is shorter than originally estimated, the Company amortizes the remaining carrying value over the new shorter useful life. Impairment losses are recorded in Selling, general, and administrative expense in the consolidated statements of operations. There were no impairment losses recognized for the three months ended September 30, 2023 and 2022.

Convertible Debenture

The Company determined that the debenture is a freestanding financial instrument, which includes embedded derivatives. The embedded derivatives have been bifurcated from the debenture and accounted for separately in accordance with the provisions of ASC 815, Derivatives and Hedging. The Company reviewed the terms of the debenture and identified two material embedded features which required bifurcation and separate accounting pursuant to the provisions of ASC 815: (1) the interest rate conversion feature based on changes in federal regulations, and (2) the debt conversion option to common shares. The debt interest rate conversion feature is classified as a derivative asset and measured at fair value using a probability weighted income approach. The debt conversion option is classified as a derivative liability and measured at fair value using a Black-Scholes option pricing model. The Company allocated proceeds first to the derivatives measured at fair value and the residual amount is allocated to the debenture. Debt issuance costs are allocated to the debenture. The debt issuance costs are presented as a direct reduction from the face value of the debenture and amortized over the stated term of the debenture.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are computed based on the temporary difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal income tax rate in effect for the year in which the differences are expected to reverse. Deferred income tax expense or benefit is based on the changes in the deferred income tax assets or liabilities from period to period. A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized.

Significant judgment is required in determining the Company’s provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against net deferred tax assets. The Company assesses the likelihood that deferred tax assets will be recovered as deductions from future taxable income. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income for the foreseeable future, determination of cumulative pre-tax book income or loss, earnings history, and reliability of forecasting. It is the Company's policy to offset indefinite lived deferred tax assets with indefinite lived deferred tax liabilities. The Company provided a full valuation allowance on deferred tax assets because it is more likely than not that deferred tax assets will not be realized.

The Company accounts for uncertainties in income taxes under ASC Topic 740, which prescribes a recognition threshold and measurement methodology to recognize and measure an income tax position taken, or expected to be taken, in a tax return. With respect to any tax positions that do not meet the recognition threshold, a corresponding liability, including interest and penalties, is recorded in the condensed consolidated financial statements. The Company may be subject to examination by tax authorities where the Company conducts operations. The earliest income tax year that may be subject to examination is 2019. The Company has recorded an uncertain tax position as of

September 30, 2023 and December 31, 2022. The Company's policy is to recognize interest and penalties on taxes, if any, within operations as income tax expense.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customer ("ASC 606"). The Company elected to early adopt ASC 606 as of January 1, 2018, as permitted by the standard. The Company performs the following five steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company applies the five-step model to arrangements that meet the definition of a contract under the standard, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of revenue accounting, the Company evaluates the goods or services promised within each contract related performance obligation and assesses whether each promised good or service is distinct. The Company recognizes as revenue, the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The Company recognizes revenue from customers when control of the goods or services are transferred to the customer, generally when products are shipped, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. Freight revenue is included in revenue on the consolidated statements of operations and is generally exempt from state sales taxes. Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue in the consolidated statements of operations. Contracts are written to include standard discounts and allowances. Contracts are not written to include advertising allowances, tiered discounts or any other performance obligation. Since the Company's contracts involve the delivery of various tangible products, the arrangements are considered to contain only a single performance obligation, as such there is no allocation of the transaction price. The Company also offers e-commerce discounts and promotions through its online rewards program. The Charlotte's Web Loyalty Program offers customers rewards points for every dollar spent through the Company website to earn store credit for future purchases. The Company defers recognition of revenue for unredeemed awards until the following occurs: (1) rewards are redeemed by the consumer, (2) points or certificates expire, or (3) an estimate of the expected unused portion of points or certificates is applied, which is based on historical redemption patterns.

Any product that does not meet the customer's expectations can be returned within the first 30 days of delivery in exchange for another product or for a full refund. Generally, any product sold through a distributor or retailer must be returned to the original purchase location for any return or exchange. The Company accounts for customer returns utilizing the "expected value method." Expected amounts are excluded from revenue and recorded as a "refund liability" that represents the Company's obligation to return the customer's consideration. Estimates are based on actual historical and current specific data.